

A photograph of two farmers, a man and a woman, walking through a field of crops at sunset. The man is on the left, wearing a plaid shirt and a cap, carrying a wooden crate. The woman is on the right, also in a plaid shirt and cap, carrying a large bag. The sun is low on the horizon, creating a warm, golden glow. The background shows rolling hills and a clear sky.

# AGFIRST FARM CREDIT BANK & DISTRICT ASSOCIATIONS

2021 SECOND QUARTER FINANCIAL INFORMATION

# ***AgFirst Farm Credit Bank and District Associations***

## ***June 30, 2021 Financial Information***

*(unaudited)*

### **INTRODUCTION AND DISTRICT OVERVIEW**

The following commentary reviews the Combined Financial Statements of condition and results of operations of AgFirst Farm Credit Bank (AgFirst or the Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the AgFirst District (District), for the three and six months ended June 30, 2021. AgFirst and the District Associations are part of the Farm Credit System (the System), a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. Cooperatives are organizations that are owned and controlled by their members who use the cooperatives' products or services. The U.S. Congress authorized the creation of the first System institutions in 1916. The System was created to provide support for the agricultural sector because of its significance to the well-being of the U.S. economy and the U.S. consumer. The mission of the System is to support rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow. The System does this by making appropriately structured loans to qualified individuals and businesses at competitive rates and providing financial services and advice to those persons and businesses. AgFirst and each District Association are individually regulated by the Farm Credit Administration (FCA).

The Associations are structured as cooperatives, and each Association is owned by its borrowers. AgFirst also operates as a cooperative. The District Associations, certain Other Financing Institutions (OFIs), other System institutions, and preferred stockholders jointly own AgFirst. As such, the benefits of ownership flow to the same farmer/rancher-borrowers that the System was created to serve.

As of June 30, 2021, the District consisted of the Bank and nineteen District Associations. All nineteen were structured as Agricultural Credit Association (ACA) holding companies, with Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries. PCAs originate and service short- and intermediate-term loans; FLCAs originate and service long-term real estate mortgage loans; and ACAs originate and service both long-term real estate mortgage loans and short- and intermediate-term loans.

Farm Credit's funds are raised by the Federal Farm Credit Banks Funding Corporation (the Funding Corporation) and insured by the Farm Credit System Insurance Corporation (FCSIC). The Funding Corporation issues a variety of Federal Farm Credit Banks Consolidated Systemwide Debt Securities with broad ranges of maturities and structures on behalf of the System banks. Each System bank has exposure to Systemwide credit risk because each bank is jointly and severally liable for all Systemwide debt issued.

AgFirst provides funding and related services to the District Associations, which, in turn, provide loans and related services to agricultural and rural borrowers. AgFirst has in place with each of the District Associations, a revolving line of credit, referred to as a "Direct Note", which is eliminated in this combined District report. Each Association primarily funds its lending and general corporate activities by borrowing through its Direct Note. Virtually all assets of the Associations secure the Direct Notes. Lending terms are specified in a separate General Financing Agreement (GFA) between AgFirst and each Association, including the subsidiaries of the Associations.

AgFirst and the Associations are chartered to serve eligible borrowers in Alabama, Delaware, Florida, Georgia, Maryland, Mississippi, North Carolina, Pennsylvania, South Carolina, Virginia, West Virginia, Puerto Rico, and portions of Kentucky, Louisiana, Ohio, and Tennessee. As of June 30, 2021, two other Farm Credit Banks (FCBs) and an Agricultural Credit Bank (ACB), through a number of associations, provided loans and related services to eligible borrowers in the remaining portion of the United States. While owned by its related associations, each FCB manages and controls its own business activities and operations. The ACB is owned by its related associations as well as other agricultural and rural institutions, including agricultural cooperatives. Associations are not commonly owned or controlled and each manages and controls its own business activities and operations.

While combined District statements reflect the financial and operational interdependence of AgFirst and its Associations, AgFirst does not own or control the Associations. AgFirst publishes Bank-only audited financial statements (electronic version of which is available on AgFirst's website at [www.agfirst.com](http://www.agfirst.com)) that may be referred to for a more complete analysis of AgFirst's financial condition and results of operations.

## Financial Highlights

<i>(dollars in thousands)</i>	<b>June 30, 2021</b>	<b>December 31, 2020</b>
Total loans	\$ 33,023,803	\$ 32,170,077
Allowance for loan losses	(219,173)	(220,261)
Net loans	<b>32,804,630</b>	31,949,816
Total assets	<b>43,294,302</b>	42,447,462
Total shareholders' equity	<b>7,447,755</b>	7,107,520
	<b>For the Six Months Ended June 30,</b>	
	<b>2021</b>	<b>2020</b>
Net interest income	\$ 662,235	\$ 580,662
Provision for (reversal of allowance for) loan losses	(942)	15,260
Noninterest income (expense), net	(248,148)	(260,946)
Net income	<b>\$ 415,029</b>	\$ 304,456
Net interest income as a percentage of average earning assets	<b>3.19 %</b>	2.90 %
Net (chargeoffs) recoveries to average loans	<b>0.00 %</b>	(0.01)%
Return on average assets	<b>1.96 %</b>	1.48 %
Return on average shareholders' equity	<b>11.44 %</b>	8.80 %
Operating expense as a percentage of net interest income and noninterest income	<b>41.80 %</b>	45.48 %
Average loans	\$ 32,533,634	\$ 31,197,604
Average earning assets	<b>41,808,611</b>	40,287,503
Average assets	<b>42,736,118</b>	41,301,016

# *Management's Discussion & Analysis of Financial Condition & Results of Operations*

## **COVID-19 OVERVIEW**

In response to the COVID-19 pandemic, and without disruption to operations, AgFirst and the Associations transitioned the vast majority of their employees to working remotely in mid-March 2020. The priority was, and continues to be, to ensure the health and safety of employees, while continuing to serve the mission of providing support for rural America and agriculture. The Bank continues to operate primarily in a remote work environment, with a limited number of employees working at the Bank's headquarters. Associations' remote work environments and pandemic mitigation strategies have varied over the last several months to address their unique local conditions. Several Associations have returned to pre-pandemic working conditions while others have some contingent of staff working remotely and continue to allow customer branch visits by appointment only.

During the first half of 2021, significant progress has been made in the fight against COVID-19 with the distribution of vaccines. However, the highly contagious Delta variant has raised doubts about how quickly the world will return to "pre-pandemic" norms. Uncertainty remains as to the ability to vaccinate those unvaccinated nationwide and globally and when the restrictions that were imposed to slow the spread of the pandemic will be lifted entirely or if those restrictions that were previously lifted will be reinstated. AgFirst will adjust its business continuity plans to maintain effective and efficient business operations while safeguarding the health and safety of employees. In addition, AgFirst continues to work with borrowers and District Associations to offer appropriate solutions to meet their operating and liquidity needs.

See further discussion of business risks associated with COVID-19 in the 2020 District Annual Financial Information.

### ***COVID-19 Support Programs***

Since the onset of the COVID-19 pandemic, the U.S. government has taken a number of actions to help businesses, individuals, state/local governments, and educational institutions that have been adversely impacted by the economic disruption caused by the pandemic.

The previously enacted Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was amended by subsequent legislation, included the Paycheck Protection Program (PPP). The PPP provides support to small businesses to cover payroll and certain other expenses. Loans made under the PPP are fully guaranteed by the Small Business Administration (SBA), whose guarantee is backed by the full faith and credit of the United States. As of June 30, 2021, the District had \$174.6 million of these loans outstanding to approximately 9,900 borrowers. In addition, through June 30, 2021, the volume of such loans that have received forgiveness from the SBA since the start of the program was \$88.7 million.

For a detailed discussion of programs enacted in 2020, see pages 3 and 4 of the 2020 District Annual Financial Information.

## **CLIMATE CHANGE**

Agricultural production is and always has been vulnerable to weather events and climate change. The USDA has recognized that the changing climate presents threats to U.S. and global agricultural production and rural communities. The impact of climate change including its effect on weather is, and will continue to be, a challenge for agricultural producers. Among the risks of climate change are:

- rising average temperatures,
- more frequent and severe storms,
- more forest fires, and
- extremes in flooding and droughts.

However, risks associated with climate change are mitigated, to some degree, by U.S. agricultural producers' ability to navigate changing industry dynamics from numerous perspectives, including trade, government policy, consumer preferences and weather. Producers regularly adopt new technologies, agronomic practices and financial strategies in response to evolving trends to ensure their competitiveness.

## RESULTS OF OPERATIONS

Net income for the six months ended June 30, 2021 was \$415.0 million compared to \$304.5 million for the corresponding period in 2020, an increase of \$110.6 million or 36.32 percent. Net income for the three months ended June 30, 2021 was \$210.2 million compared to \$157.0 million for the three months ended June 30, 2020, an increase of \$53.2 million, or 33.88 percent. See below for further discussion of the change in net income by major components.

### *Net Interest Income*

Net interest income increased \$29.4 million, or 9.66 percent, to \$333.4 million, for the three months ended June 30, 2021 compared to the three months ended June 30, 2020. For the six months ended June 30, 2021, net interest income was \$662.2 million compared to \$580.7 million for the same period of 2020, an increase of \$81.6 million, or 14.05 percent. The net interest margin, which is net interest income as a percentage of average earning assets, was 3.17 percent and 3.19 percent, an increase of 18 basis points and 29 basis points for the three and six months ended June 30, 2021, respectively, compared to the same periods in the prior year. The increases in net interest income primarily resulted from lower rates paid on interest-bearing liabilities, which was achieved by calling debt in response to declining interest rates, partially offset by refinancing of interest-earning assets at lower interest rates.

The COVID-19 impact on interest rates provided the Bank opportunities to call and replace \$5.361 billion of debt for the first six months of 2021, and \$29.362 billion for the first six months of 2020. The average rate reduction for the debt called during the six months of 2021 (the difference between the rates on the called bonds and the rates on the replacement bonds) was 20 basis points, resulting in interest expense savings of \$23.1 million, net of debt extinguishment expense of \$4.8 million, over the remaining life of the bonds of 2.31 years. Replacement bonds generally have terms similar to those of the bonds being replaced. For the year ended December 31, 2020, \$43.043 billion of debt was called and replaced. The average rate reduction was 63 basis points resulting in interest expense savings of \$954.8 million, net of debt extinguishment expense of \$65.5 million, over the remaining life of the bonds called.

The effects of changes in volume and interest rates on net interest income for the three and six months ended June 30, 2021, as compared with the corresponding periods in 2020, are presented in the following table. The table distinguishes between the changes in interest income and interest expense related to average outstanding balances and to the levels of average interest rates. Accordingly, the benefit derived from funding earning assets with interest-free funds (principally capital) is reflected solely as a volume increase.

<i>(dollars in thousands)</i>	For the Three Months Ended June 30, 2021 vs. June 30, 2020			For the Six Months Ended June 30, 2021 vs. June 30, 2020		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Loans	\$ 12,931	\$ (24,569)	\$ (11,638)	\$ 27,523	\$ (82,674)	\$ (55,151)
Investments & Cash Equivalents	1,058	(8,688)	(7,630)	2,164	(27,853)	(25,689)
Other	(42)	(452)	(494)	(88)	(1,176)	(1,264)
Total Interest Income	13,947	(33,709)	(19,762)	29,599	(111,703)	(82,104)
Interest Expense:						
Interest-Bearing Liabilities	855	(49,978)	(49,123)	3,106	(166,783)	(163,677)
Changes in Net Interest Income	\$ 13,092	\$ 16,269	\$ 29,361	\$ 26,493	\$ 55,080	\$ 81,573

### *Provision for Loan Losses*

AgFirst and the District Associations measure risks inherent in their individual loan portfolios on an ongoing basis and, as necessary, recognize provision for loan loss expense so that appropriate allowances for loan losses are maintained. Provision

for loan losses was a net provision reversal of \$31 thousand and \$942 thousand for the three- and six-month periods ended June 30, 2021, respectively, compared to a net provision expense of \$11.8 million and \$15.3 million for the corresponding periods in 2020.

For the three and six months ended June 30, 2021, the provision for loan losses included net provision expense for specific reserves of \$2.9 million and \$822 thousand, respectively, and net provision reversals for general reserves of \$3.0 million and \$1.8 million, respectively. Total net provision reversal for the three months ended June 30, 2021 primarily related to borrowers in the nursery/greenhouse (\$1.4 million reversal), processing (\$1.3 million reversal), swine (\$1.1 million reversal), field crops (\$1.9 million expense), and utilities (\$1.5 million expense) segments. Total net provision reversal for the six months ended June 30, 2021 primarily related to borrowers in the swine (\$2.0 million reversal), poultry (\$1.8 million reversal), field crops (\$2.7 million expense), and utilities (\$2.4 million expense) segments.

For the three and six months ended June 30, 2020, the provision for loan losses included net provision expense for specific reserves of \$2.4 million and \$2.7 million, respectively, and net provision expense for general reserves of \$9.4 million and \$12.5 million, respectively. Total net provision expense for the three months ended June 30, 2020 primarily related to borrowers in the poultry (\$4.2 million expense), field crops (\$2.6 million expense), grains (\$1.6 million expense), forestry (\$1.3 million expense), cattle (\$1.2 million expense), other real estate (\$2.0 million reversal), and nursery/greenhouse (\$1.3 million reversal) segments. For the six-month period ended June 30, 2020, the provision for loan losses primarily related to borrowers in the poultry (\$5.0 million expense), forestry (\$3.0 million expense), other (\$2.4 million expense), grains (\$1.9 million expense), cattle (\$1.8 million expense), field crops (\$1.4 million expense), tree fruits and nuts (\$1.4 million expense), processing (\$1.1 million expense), other real estate (\$2.7 million reversal), dairy (\$1.3 million reversal), and nursery/greenhouse (\$1.1 million reversal) segments.

See the *Loan Portfolio* section below for further information.

### ***Noninterest Income***

The following table illustrates the changes in noninterest income:

Change in Noninterest Income <i>(dollars in thousands)</i>	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2021	2020	Increase/ Decrease	2021	2020	Increase/ Decrease
Loan fees	\$ 16,771	\$ 12,269	\$ 4,502	\$ 31,778	\$ 21,801	\$ 9,977
Fees for financially related services	4,409	2,682	1,727	6,851	4,343	2,508
Lease income	944	947	(3)	1,889	1,866	23
Gains (losses) on investments, net	330	—	330	330	7,215	(6,885)
Gains (losses) on debt extinguishment	(2,614)	(23,203)	20,589	(4,834)	(43,947)	39,113
Gains (losses) on other transactions	4,295	6,365	(2,070)	7,350	5,334	2,016
Insurance premium refund	—	(16)	16	—	6,813	(6,813)
Other noninterest income	2,596	1,177	1,419	6,903	5,981	922
<b>Total noninterest income</b>	<b>\$ 26,731</b>	<b>\$ 221</b>	<b>\$ 26,510</b>	<b>\$ 50,267</b>	<b>\$ 9,406</b>	<b>\$ 40,861</b>

Noninterest income increased \$26.5 million and \$40.9 million for the three and six months ended June 30, 2021, respectively, compared to the corresponding periods in 2020. Significant line item dollar variances are discussed below.

Loan fees increased \$4.5 million and \$10.0 million for the three and six months ended June 30, 2021, respectively, compared to the corresponding periods in 2020. The increases for the three and six months ended June 30, 2021 were primarily due to \$578 thousand and \$5.1 million, respectively, in higher fee income on loans made under the SBA Paycheck Protection Program (PPP) and \$3.2 million and \$3.4 million, respectively, in higher new loan/origination fees. See the *COVID-19 Support Programs* section above for further discussion.

Fees for financially related services increased \$1.7 million and \$2.5 million for the three and six months ended June 30, 2021, respectively, compared to the corresponding periods in 2020. These increases resulted primarily from increases in crop and hail insurance of \$1.3 million and \$1.9 million for the three and six month periods, respectively,

Gains on investments decreased \$6.9 million for the six-month period ended June 30, 2021 compared to the same period in 2020. As part of its normal portfolio management activities, the Bank periodically packages and sells amortizing securities that have relatively small remaining balances and correspondingly high administrative costs. During the first six months of 2021, the Bank sold securities with a par value of approximately \$43.9 million and recognized net gains of \$330 thousand compared to sales of securities with a par value of approximately \$55.9 million and net gains of \$7.2 million recorded during the first six months of 2020.

Debt issuance expense is amortized into interest expense over the contractual life of the underlying debt security. Debt is called to take advantage of favorable market interest rate changes. When debt securities are called prior to maturity, any unamortized issuance cost is expensed through gains (losses) on debt extinguishment. The amount of issuance cost expensed when a bond is called is dependent upon both the size and remaining maturity of the bond when called. Losses on called debt are more than offset by interest expense savings realized over the life of the replacement debt. Call options were exercised on bonds totaling \$2.670 billion and \$5.361 billion for the three and six months ended June 30, 2021, respectively, compared to \$15.108 billion and \$29.362 billion for the three and six months ended June 30, 2020, respectively. Accordingly, losses on debt extinguishment decreased \$20.6 million and \$39.1 million for the three and six months ended June 30, 2021, respectively, compared to the same periods in 2020. See *Net Interest Income* section above for further discussion.

For the three and six months ended June 30, 2021, gains on other transactions decreased \$2.1 million and increased \$2.0 million compared to the same periods in the prior year. The three- and six-month periods included increases of \$2.0 million and \$5.3 million, respectively, in market value gains on supplemental retirement plan trust assets due to favorable market returns. These increases were offset by decreases of \$4.7 million and \$4.6 million for the three- and six-month periods, respectively, due to gains on sales of \$106.6 million of loans in the rural residential loan portfolio in the second quarter of 2020 to capitalize on market premiums in the portfolio and manage risk during a period of market volatility.

In the first quarter of 2020, the District received an insurance premium refund of \$6.8 million from the FCSIC which insures the System's debt obligations. This refund is nonrecurring and resulted from the assets of the FCSIC exceeding the secure base amount, as defined by the Farm Credit Act, at the end of the preceding year. No refund was received in 2021.

For the three months ended June 30, 2021 other noninterest income increased by \$1.4 million due to an increase in patronage income received from Farm Credit institutions outside the District.

### ***Noninterest Expenses***

The following table illustrates the changes in noninterest expenses:

Change in Noninterest Expenses <i>(dollars in thousands)</i>	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2021	2020	Increase/ Decrease	2021	2020	Increase/ Decrease
Salaries and employee benefits	\$ 86,481	\$ 82,809	\$ 3,672	\$ 174,919	\$ 163,315	\$ 11,604
Occupancy and equipment	6,669	6,453	216	13,611	13,362	249
Insurance Fund premiums	11,688	5,739	5,949	22,936	11,204	11,732
Other operating expenses	44,646	39,180	5,466	86,351	80,465	5,886
Losses (gains) from other property owned	168	853	(685)	91	1,433	(1,342)
Total noninterest expenses	\$ 149,652	\$ 135,034	\$ 14,618	\$ 297,908	\$ 269,779	\$ 28,129

Noninterest expenses increased \$14.6 million and \$28.1 million for the three and six months ended June 30, 2021, compared to the corresponding periods in 2020. Significant line item dollar variances are discussed below.

Salaries and employee benefits expenses increased \$3.7 million and \$11.6 million for the three and six months ended June 30, 2021. The increases resulted primarily from higher salaries and incentives due to normal salary administration, increased performance-based incentives, and an increase in headcount.

Insurance Fund premiums increased \$5.9 million and \$11.7 million for the three and six months ended June 30, 2021 compared to the same periods in 2020. The increases resulted primarily from an increase in the base annual premium rate to 16 basis points in the first half of 2021 from 8 basis points in the first half of 2020. The FCSIC Board makes premium rate

adjustments, as necessary, to maintain the secure base amount which is based upon insured debt outstanding at System banks. The Insurance Fund premium rate will remain at 16 basis points for the second half of 2021.

For the three and six months ended June 30, 2021, other operating expenses increased by \$5.5 million and \$5.9 million compared to the same periods in 2020. The increase for both periods was primarily related to technology initiatives which resulted in increases of \$4.2 million and \$8.2 million in contractor costs for three and six months, respectively, and increases of \$2.0 million and \$3.0 million, respectively, in hardware and software maintenance and depreciation costs. These increases were partially offset by decreases in periodic pension and postretirement benefit costs of \$2.1 million and \$4.2 million for the three and six months ended June 30, 2021 compared to the same periods in 2020 due primarily to lower discount rates.

Losses on other property owned decreased by \$1.3 million for the six months ended June 30, 2021 compared to the same period in the prior year due primarily to lower write-downs in the 2021 period.

## LOAN PORTFOLIO

The District's aggregate loan portfolio consists primarily of loans made by the Associations to eligible borrowers located within their chartered territories. Diversification of the loan volume by FCA loan type is shown in the following table:

<b>Loan Types</b> <i>(dollars in thousands)</i>	<b>June 30, 2021</b>		<b>December 31, 2020</b>		<b>June 30, 2020</b>	
Real Estate Mortgage	\$ 17,714,990	53.64 %	\$ 16,849,843	52.38 %	\$ 16,027,415	50.88 %
Production and Intermediate-Term	6,477,591	19.62	6,758,318	21.01	6,949,774	22.06
Rural Residential Real Estate	3,392,633	10.27	3,480,143	10.82	3,685,166	11.70
Processing and Marketing	2,298,387	6.96	2,209,669	6.87	2,001,568	6.35
Loans to Cooperatives	753,779	2.28	750,943	2.33	706,799	2.24
Communication	765,032	2.32	734,958	2.28	715,067	2.27
Power and Water/Waste Disposal	707,067	2.14	606,739	1.89	672,639	2.14
Farm-Related Business	428,355	1.30	380,011	1.18	355,113	1.13
International	228,834	0.69	168,952	0.52	175,094	0.56
Loans to Other Financing Institutions (OFIs)	149,126	0.45	137,098	0.43	141,455	0.45
Other (including Mission Related)	94,374	0.29	83,094	0.26	59,671	0.19
Lease Receivables	13,635	0.04	10,309	0.03	10,980	0.03
<b>Total</b>	<b>\$ 33,023,803</b>	<b>100.00 %</b>	<b>\$ 32,170,077</b>	<b>100.00 %</b>	<b>\$ 31,500,741</b>	<b>100.00 %</b>

Total loans outstanding were \$33.024 billion at June 30, 2021, an increase of \$853.7 million, or 2.65 percent, compared to total loans outstanding at December 31, 2020 and an increase of \$1.523 billion, or 4.84 percent, since June 30, 2020.

Compared to year-end 2020, the increase in loan growth was primarily due to growth in the field crops, dairy, grains, utilities, and cattle segments. Compared to June 30, 2020, the year-over-year increase in loan volume was primarily in the field crops, forestry, grains, dairy, and cattle segments. Both periods were partially offset by declines in the rural home loans segment. Growth came from a combination of factors including new client acquisition, customers restructuring their balance sheets to take advantage of the current rate environment, liquidity needs due to commodity price escalation, and merger and acquisition activity.

### Credit Quality

Credit quality of the District's loans is show below:

<b>Classification</b>	<b>Total Loan Portfolio Credit Quality as of:</b>		
	<b>June 30, 2021</b>	<b>December 31, 2020</b>	<b>June 30, 2020</b>
Acceptable	95.81 %	95.29 %	94.83 %
OAEM	2.47 %	2.67 %	2.79 %
Substandard/doubtful/loss	1.72 %	2.04 %	2.38 %
<b>Total</b>	<b>100.00 %</b>	<b>100.00 %</b>	<b>100.00 %</b>



District credit quality has remained relatively stable, but it may deteriorate in future quarters given potential changes in government support for agricultural sectors and unemployment benefits, inflationary pressures, and unforeseen impacts from trade, weather, or agriculture-related events.

As a result of stable credit quality and the District's efforts to resolve problem assets, the District's high-risk assets continue to be a small percentage of the total loan volume and total assets. Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

<i>(dollars in thousands)</i>	<b>June 30, 2021</b>	<b>December 31, 2020</b>
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 105,050	\$ 114,349
Production and intermediate-term	78,635	92,212
Processing and marketing	13,092	3,374
Farm-related business	2,793	2,008
Power and water/waste disposal	11,000	—
Rural residential real estate	20,046	18,897
Lease receivables	95	126
Total	\$ 230,711	\$ 230,966
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 79,476	\$ 80,068
Production and intermediate-term	31,496	33,681
Processing and marketing	9,151	10,228
Farm-related business	191	512
Rural residential real estate	8,545	4,165
Lease receivables	12	24
Other (including Mission Related)	3,691	3,830
Total	\$ 132,562	\$ 132,508
<b>Accruing loans 90 days or more past due:</b>		
Real estate mortgage	\$ —	\$ 596
Production and intermediate-term	27	20
Rural residential real estate	2,004	535
Other (including mission related)	344	—
Total	\$ 2,375	\$ 1,151
Total nonperforming loans	\$ 365,648	\$ 364,625
Other property owned	9,660	10,751
Total nonperforming assets	\$ 375,308	\$ 375,376
Nonaccrual loans as a percentage of total loans	0.70 %	0.72 %
Nonperforming assets as a percentage of total loans and other property owned	1.14 %	1.17 %
Nonperforming assets as a percentage of capital	5.04 %	5.28 %

The recorded investment in a receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment. The following tables provide an aging analysis of the recorded investment in past due loans as of:

June 30, 2021					
<i>(dollars in thousands)</i>	<b>30 Through 89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Past Due</b>	<b>Not Past Due or Less Than 30 Days Past Due</b>	<b>Total Loans</b>
Real estate mortgage	\$ 56,873	\$ 44,283	\$ 101,156	\$ 17,747,041	\$ 17,848,197
Production and intermediate-term	20,064	35,190	55,254	6,476,582	6,531,836
Loans to cooperatives	114	—	114	754,433	754,547
Processing and marketing	165	314	479	2,304,088	2,304,567
Farm-related business	3,476	2,274	5,750	424,972	430,722
Communication	—	—	—	765,152	765,152
Power and water/waste disposal	—	11,000	11,000	698,072	709,072
Rural residential real estate	9,851	14,326	24,177	3,378,265	3,402,442
International	—	—	—	229,481	229,481
Lease receivables	92	—	92	13,586	13,678
Loans to OFIs	—	—	—	149,385	149,385
Other (including Mission Related)	45	345	390	94,574	94,964
Total	\$ 90,680	\$ 107,732	\$ 198,412	\$ 33,035,631	\$ 33,234,043

December 31, 2020					
<i>(dollars in thousands)</i>	<b>30 Through 89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Past Due</b>	<b>Not Past Due or Less Than 30 Days Past Due</b>	<b>Total Loans</b>
Real estate mortgage	\$ 55,907	\$ 55,206	\$ 111,113	\$ 16,867,836	\$ 16,978,949
Production and intermediate-term	27,779	44,927	72,706	6,746,670	6,819,376
Loans to cooperatives	—	—	—	751,810	751,810
Processing and marketing	975	2,981	3,956	2,211,971	2,215,927
Farm-related business	2,901	1,070	3,971	377,986	381,957
Communication	—	—	—	735,084	735,084
Power and water/waste disposal	—	—	—	608,380	608,380
Rural residential real estate	52,724	11,580	64,304	3,425,490	3,489,794
International	—	—	—	169,551	169,551
Lease receivables	303	—	303	10,060	10,363
Loans to OFIs	—	—	—	137,379	137,379
Other (including Mission Related)	4,411	—	4,411	79,283	83,694
Total	\$ 145,000	\$ 115,764	\$ 260,764	\$ 32,121,500	\$ 32,382,264

### ***Nonaccrual Loans***

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the combined District at June 30, 2021 were \$230.7 million compared to \$231.0 million at December 31, 2020. Nonaccrual loans decreased \$255 thousand during the six months ended June 30, 2021 due primarily to repayments of \$56.8 million, reinstatements to accrual status of \$10.2 million, charge-offs of uncollectible balances of \$3.3 million, and transfers to other property owned of \$3.0 million. Offsetting these decreases were loan balances transferred to nonaccrual status of \$61.0 million, advances on nonaccrual loans of \$12.7 million and recoveries of charge-offs of \$3.6 million. At June 30, 2021, total nonaccrual loans were primarily in the field crops (14.89 percent of the total), poultry (11.35 percent), rural home loan (9.17 percent), tree fruits and nuts (7.90 percent), grains (7.60 percent), and cattle (7.21 percent) segments. Nonaccrual loans were 0.70 percent of total loans outstanding at June 30, 2021 compared to 0.72 percent at December 31, 2020.

### ***Troubled Debt Restructurings***

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank and District Associations would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by the Bank and District Associations. TDRs totaled \$195.2 million at June 30, 2021, compared to \$193.9 million at December 31, 2020. At June 30, 2021, TDRs were comprised of \$132.6 million of accruing restructured loans and \$62.6 million of nonaccrual restructured loans. Restructured loans were primarily in the poultry (17.64 percent of the total), field crops (14.73 percent), forestry (8.88 percent), cattle (7.91 percent), tree fruits and nuts (7.16 percent), and dairy (6.29 percent) segments.

### ***Other Property Owned***

Other property owned (OPO) consists primarily of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank and District Associations (or a lender group) in satisfaction of secured loans. OPO may be comprised of real estate, equipment, and equity interests in companies or partnerships. OPO decreased \$1.1 million during 2021 to \$9.7 million at June 30, 2021. The decrease was due primarily to sales of \$4.3 million, partially offset by property received in settlement of loans of \$3.5 million. At June 30, 2021, the largest OPO holding was in the grains segment and totaled \$2.0 million (20.82 percent of the total OPO balance).

### ***Allowance for Loan Losses***

Each District institution maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within its respective loan and finance lease portfolios as of each reported balance sheet date. The District increases the allowance by recording a provision for loan losses in the income statement. Loan losses are recorded against and serve to decrease the allowance when management determines that any portion of a loan or lease is uncollectible. Any subsequent recoveries are added to the allowance. Management's evaluations consider factors which include, among other things, loan loss experience, portfolio quality, loan portfolio composition, current agricultural production conditions, and general economic conditions. Although aggregated in the District's combined financial statements, the allowance for loan losses for each District entity is particular to that institution and is not available to absorb losses realized by other District entities.

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

<i>(dollars in thousands)</i>	Real Estate Mortgage	Production and Intermediate- term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Other Loans**	Total
<b>Activity related to allowance for credit losses:</b>										
Balance at March 31, 2021	\$ 102,729	\$ 80,957	\$ 19,847	\$ 2,309	\$ 1,962	\$ 10,153	\$ 492	\$ 92	\$ 360	\$ 218,901
Charge-offs	(566)	(1,147)	(2)	—	—	(214)	—	—	—	(1,929)
Recoveries	497	716	976	—	—	41	—	—	—	2,230
Provision for loan losses	(1,089)	1,341	(843)	16	1,389	(855)	(10)	(12)	32	(31)
Balance at June 30, 2021	\$ 101,571	\$ 81,867	\$ 19,978	\$ 2,325	\$ 3,351	\$ 9,125	\$ 482	\$ 80	\$ 392	\$ 219,171
<b>Activity related to allowance for credit losses:</b>										
Balance at December 31, 2020	\$ 100,824	\$ 85,000	\$ 19,011	\$ 2,378	\$ 1,305	\$ 10,563	\$ 461	\$ 330	\$ 389	\$ 220,261
Charge-offs	(682)	(1,854)	(663)	—	—	(582)	—	—	—	(3,781)
Recoveries	1,197	1,240	1,134	—	—	62	—	—	—	3,633
Provision for loan losses	232	(2,519)	496	(53)	2,046	(918)	21	(250)	3	(942)
Balance at June 30, 2021	\$ 101,571	\$ 81,867	\$ 19,978	\$ 2,325	\$ 3,351	\$ 9,125	\$ 482	\$ 80	\$ 392	\$ 219,171
<b>Activity related to allowance for credit losses:</b>										
Balance at March 31, 2020	\$ 89,994	\$ 90,843	\$ 17,612	\$ 2,579	\$ 2,683	\$ 8,669	\$ 460	\$ 351	\$ 402	\$ 213,593
Charge-offs	(121)	(1,438)	(103)	—	—	(7)	—	—	—	(1,669)
Recoveries	180	597	4	—	—	14	—	—	—	795
Provision for loan losses	3,738	5,609	134	303	2,003	26	(4)	(13)	12	11,808
Balance at June 30, 2020	\$ 93,791	\$ 95,611	\$ 17,647	\$ 2,882	\$ 4,686	\$ 8,702	\$ 456	\$ 338	\$ 414	\$ 224,527
<b>Activity related to allowance for credit losses:</b>										
Balance at December 31, 2019	\$ 88,474	\$ 91,557	\$ 16,465	\$ 2,348	\$ 2,663	\$ 8,316	\$ 461	\$ 388	\$ 405	\$ 211,077
Charge-offs	(637)	(2,455)	(105)	—	—	(36)	—	—	—	(3,233)
Recoveries	450	933	18	—	—	22	—	—	—	1,423
Provision for loan losses	5,520	5,560	1,269	534	2,023	400	(5)	(50)	9	15,260
Loan type reclassification	(16)	16	—	—	—	—	—	—	—	—
Balance at June 30, 2020	\$ 93,791	\$ 95,611	\$ 17,647	\$ 2,882	\$ 4,686	\$ 8,702	\$ 456	\$ 338	\$ 414	\$ 224,527
<b>Allowance on loans evaluated for impairment:</b>										
Individually	\$ 5,780	\$ 11,604	\$ 507	\$ —	\$ 2,200	\$ 425	\$ —	\$ —	\$ 92	\$ 20,608
Collectively	95,791	70,263	19,471	2,325	1,151	8,700	482	80	300	198,563
PCI***	—	—	—	—	—	—	—	—	—	—
Balance at June 30, 2021	\$ 101,571	\$ 81,867	\$ 19,978	\$ 2,325	\$ 3,351	\$ 9,125	\$ 482	\$ 80	\$ 392	\$ 219,171
<b>Allowance on loans evaluated for impairment:</b>										
Individually	\$ 6,318	\$ 12,769	\$ 128	\$ —	\$ —	\$ 568	\$ —	\$ 57	\$ 92	\$ 19,932
Collectively	94,506	72,231	18,883	2,378	1,305	9,995	461	273	297	200,329
PCI***	—	—	—	—	—	—	—	—	—	—
Balance at December 31, 2020	\$ 100,824	\$ 85,000	\$ 19,011	\$ 2,378	\$ 1,305	\$ 10,563	\$ 461	\$ 330	\$ 389	\$ 220,261
<b>Recorded investment in loans evaluated for impairment:</b>										
Individually	\$ 300,359	\$ 105,464	\$ 25,078	\$ —	\$ 11,000	\$ 702,498	\$ —	\$ 106	\$ 4,037	\$ 1,148,542
Collectively	17,547,315	6,426,372	3,464,758	765,152	698,072	2,699,944	229,481	13,572	240,312	32,084,978
PCI***	523	—	—	—	—	—	—	—	—	523
Balance at June 30, 2021	\$ 17,848,197	\$ 6,531,836	\$ 3,489,836	\$ 765,152	\$ 709,072	\$ 3,402,442	\$ 229,481	\$ 13,678	\$ 244,349	\$ 33,234,043
<b>Recorded investment in loans evaluated for impairment:</b>										
Individually	\$ 316,166	\$ 122,213	\$ 15,755	\$ —	\$ —	\$ 810,686	\$ —	\$ 243	\$ 3,829	\$ 1,268,892
Collectively	16,662,215	6,697,163	3,333,939	735,084	608,380	2,679,108	169,551	10,120	217,244	31,112,804
PCI***	568	—	—	—	—	—	—	—	—	568
Balance at December 31, 2020	\$ 16,978,949	\$ 6,819,376	\$ 3,349,694	\$ 735,084	\$ 608,380	\$ 3,489,794	\$ 169,551	\$ 10,363	\$ 221,073	\$ 32,382,264

\* Includes the loan types: Loans to cooperatives, Processing and marketing, and Farm-related business.

\*\* Includes the loan types: Mission Related Loans and Loans to OFIs.

\*\*\* Purchased credit impaired loans.

The allowance for loan losses was \$219.2 million at June 30, 2021, as compared with \$220.3 million at December 31, 2020, a decrease of \$1.1 million. Provision reversals of \$942 thousand and charge-offs of \$3.8 million decreased the allowance during the six months ended June 30, 2021, and were partially offset by loan recoveries of \$3.6 million. Charge-offs during the first six months of 2021 were related primarily to borrowers in the field crops (31.50 percent of the total), poultry (18.23 percent), and rural home loans (15.20 percent) segments. Recoveries during the six months ended June 30, 2021 were related primarily to borrowers in the processing (26.83 percent of the total), nursery/greenhouse (17.78 percent), and field crops (11.36 percent) segments. See *Provision for Loan Losses* section above for additional details regarding loan loss provision expense and reversals. The allowance at June 30, 2021 included specific reserves of \$20.6 million (9.40 percent of the total)

and \$198.6 million (90.60 percent) of general reserves. The largest commodity segments included in the allowance at June 30, 2021 were the poultry (16.36 percent of the total), field crops (12.51 percent), forestry (10.82 percent), cattle (7.89 percent), and grains (7.11 percent) segments. The allowance for loan losses was 0.66 percent, 0.68 percent, and 0.71 percent of total loans outstanding at June 30, 2021, December 31, 2020, and June 30, 2020, respectively.

## INVESTMENTS

The Bank is responsible for meeting the District's funding, liquidity and asset/liability management needs. Along with normal cash flows associated with lending operations, the District has two primary sources of liquidity: the capacity to issue Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation, and cash and investments. The Bank also maintains several repurchase agreement facilities. In addition, the System has established a line of credit in the event contingency funding is needed to meet obligations of System banks.

The Bank's investments are primarily classified as available-for-sale investments. Refer to the Bank's Second Quarter 2021 Report for additional information related to investments. District Associations also have regulatory authority to enter into certain government guaranteed investments, generally mortgage-backed or asset-backed securities. There were no impairment losses recorded by the District during the six months ended June 30, 2021 or 2020. As of June 30, 2021, one Association had recorded cumulative impairment losses of \$184 thousand on one investment security. The following tables summarize the District's investments:

<i>(dollars in thousands)</i>	<b>June 30, 2021</b>			
	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>
District Bank investments	\$ 8,900,584	\$ 163,359	\$ (15,323)	\$ 9,048,620
District Association investments	34,674	4,102	(114)	38,662
Total District investments	\$ 8,935,258	\$ 167,461	\$ (15,437)	\$ 9,087,282

<i>(dollars in thousands)</i>	<b>December 31, 2020</b>			
	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>
District Bank investments	\$ 8,324,899	\$ 199,536	\$ (3,850)	\$ 8,520,585
District Association investments	35,549	5,224	(186)	40,587
Total District investments	\$ 8,360,448	\$ 204,760	\$ (4,036)	\$ 8,561,172

## CAPITAL

Capital serves to support future asset growth, investment in new products and services, and to provide protection against credit, interest rate, and other risks, as well as operating losses. A sound capital position is critical to provide protection to investors in Systemwide Debt Securities and to ensure long-term financial success.

Total shareholders' equity increased \$340.2 million, or 4.79 percent, from December 31, 2020 to \$7.448 billion at June 30, 2021. This increase is primarily attributed to 2021 unallocated retained earnings from net income of \$415.0 million and net issuance of \$13.9 million in capital stock and participation certificates, partially offset by a decrease in net unrealized gains on investments of \$45.5 million primarily due to an increase in interest rates which decreased the fair value of existing available-for-sale fixed-rate investment securities, patronage distributions of \$25.0 million, and \$24.6 million of retained earnings retired.

In addition, during the first quarter of 2021, the Bank repurchased, through privately negotiated transactions, and subsequently cancelled, Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with par value totaling \$9.8 million. The effect of the repurchases on shareholders' equity was to reduce preferred stock outstanding by \$9.8 million and to increase additional paid-in capital by \$3.0 million.

The following table summarizes accumulated other comprehensive income (AOCI) balances at period end:

<i>(dollars in thousands)</i>	<b>June 30, 2021</b>	<b>December 31, 2020</b>
<b>Accumulated Other Comprehensive Income (Loss)</b>		
Unrealized gain (loss) on investment securities	\$ 145,323	\$ 190,792
Derivatives and hedging activity	246	287
Employee benefit plans activity	(339,375)	(356,429)
Total accumulated other comprehensive income (loss)	<u>\$ (193,806)</u>	<u>\$ (165,350)</u>

The Farm Credit Administration sets minimum regulatory capital requirements for Banks and Associations. The Bank and all Associations exceeded regulatory capital requirements, as demonstrated in the following table. These ratios are calculated using a three-month average daily balance.

<b>Regulatory Capital Requirements and Ratios</b>					
<b>As of June 30, 2021</b>	<b>Primary Components of Numerator</b>	<b>Regulatory Minimums</b>	<b>Minimum with Buffer</b>	<b>Bank</b>	<b>District Associations</b>
<b>Risk adjusted:</b>					
Common equity tier 1 capital ratio	Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity) <sup>1</sup>	4.50 %	7.00 %	18.01%	15.16 % - 34.16 %
Tier 1 capital ratio	CET1 capital, non-cumulative perpetual preferred stock	6.00 %	8.50 %	18.31%	15.16 % - 34.16 %
Total capital ratio	Tier 1 capital, allowance for loan losses <sup>2</sup> , common cooperative equities <sup>3</sup> and term preferred stock and subordinated debt <sup>4</sup>	8.00 %	10.50 %	18.46%	17.00 % - 35.15 %
Permanent capital ratio	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	7.00 %	7.00 %	18.34%	16.14 % - 34.48 %
<b>Non-risk adjusted:</b>					
Tier 1 leverage ratio*	Tier 1 capital	4.00 %	5.00 %	6.54%	14.69 % - 32.53 %
URE and URE component	URE and URE equivalents	1.50 %	1.50 %	5.71%	9.67 % - 33.01 %

<sup>1</sup> Equities outstanding 7 or more years

<sup>2</sup> Capped at 1.25% of risk-adjusted assets

<sup>3</sup> Outstanding 5 or more years, but less than 7 years

<sup>4</sup> Outstanding 5 or more years

\* At least 1.50% must be URE and URE equivalents

## REGULATORY MATTERS

On July 8, 2021, the FCA approved a proposed rule to revise its regulatory capital requirements to define and establish risk-weightings for High Volatility Commercial Real Estate (HVCRE) by assigning a 150 percent risk-weighting to such exposures, instead of the current 100 percent. The proposed rule would ensure that the FCA's rule remains comparable with the capital rule of other federal banking regulatory agencies and recognizes the increased risk posed by HVCRE exposures. Once the proposed rule is published in the Federal Register, the 90-day public comment period will commence.

On June 10, 2021, the FCA approved an advance notice of proposed rulemaking to request public comments on whether to amend or restructure the System bank liquidity regulations. The purpose of this advance notice is to evaluate the applicability of the Basel III framework to the Farm Credit System and gather input to ensure that System banks have the liquidity to withstand crises that adversely impact liquidity and threaten their viability.

On September 10, 2020, the FCA issued a proposed rule that would amend certain sections of the FCA's regulations to provide technical corrections, amendments, and clarification to certain provisions in the FCA's tier 1/tier 2 capital framework for the Farm Credit System. The proposed rule incorporates guidance previously provided by the FCA related to its tier 1/tier 2 capital framework as well as ensures that the FCA's capital requirements continue to be comparable to the standardized

approach that the other federal banking regulatory agencies have adopted. The public comment period ended on November 9, 2020.

On September 23, 2019, the FCA issued a proposed rule that would ensure the System's capital requirements, including certain regulatory disclosures, reflect the current expected credit losses methodology, which revises the accounting for credit losses under U.S. generally accepted accounting principles. The proposed rule identifies which credit loss allowances under the Current Expected Credit Losses (CECL) methodology in the Financial Accounting Standards Board's "Measurement of Credit Losses on Financial Instruments" are eligible for inclusion in a System institution's regulatory capital. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities would be included in a System institution's Tier 2 capital up to 1.25 percent of the System institution's total risk weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be eligible for inclusion in a System institution's Tier 2 capital. In addition, the proposed regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution's regulatory capital ratios. The public comment period ended on November 22, 2019.

## **OTHER MATTERS**

### ***Direct Notes***

See the *Direct Notes* section of *Management's Discussion & Analysis of Financial Condition & Results of Operations* in the AgFirst Farm Credit Bank Second Quarter 2021 Report for a discussion of the Bank's funding to District Associations.

### ***Future of LIBOR***

In 2017, the United Kingdom's Financial Conduct Authority (UK FCA), which regulates LIBOR, announced its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021.

On March 5, 2021, ICE Benchmark Administration (IBA) (the entity that is responsible for calculating LIBOR) announced its intention to cease the publication of the one-week and two-month US dollar LIBOR settings immediately following the LIBOR publication on December 31, 2021, and the remaining US dollar LIBOR settings immediately following the LIBOR publication on June 30, 2023. On the same day, the UK FCA announced that the IBA had notified the UK FCA of its intent, among other things, to cease providing certain US dollar LIBOR settings as of June 30, 2023. In its announcement, the UK FCA confirmed that all 35 LIBOR tenors (including with respect to US dollar LIBOR) will be discontinued or declared nonrepresentative as of either: (a) immediately after December 31, 2021 or (b) immediately after June 30, 2023.

The District has exposure to LIBOR arising from loans made to customers, investment securities purchased, Systemwide Debt Securities issued by the Funding Corporation on the Bank's behalf, and preferred stock issued by the Bank. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the lives of the financial instruments, which could adversely affect the value of, and return on, instruments held. The LIBOR transition could result in paying higher interest rates on current LIBOR-indexed Systemwide Debt Securities, adversely affect the yield on, and fair value of, loans and investments held that reference LIBOR, and increase the costs of or affect the ability to effectively use derivative instruments to manage interest rate risk. In addition, there could be other ramifications including those that may arise as a result of the need to redeem or terminate such instruments.

The FCA has issued guidelines for System institutions to follow as they prepare for the expected phase-out of LIBOR. The guidelines direct each System institution to develop a LIBOR transition plan designed to provide an orderly roadmap of actions that will reduce LIBOR exposure over time. The FCA identified the following as important considerations in the development of each entity's transition plan:

- a governance structure to manage the transition;
- an assessment of exposures to LIBOR;
- an assessment of the fallback provisions in contracts and the impact of a LIBOR phase-out under those provisions;
- the establishment of strategies for reducing each type of LIBOR exposure;
- an assessment of the operational processes that need to be changed;
- a communication strategy for customers and shareholders;
- the establishment of a process to stay abreast of industry developments and best practices;

- the establishment of a process to ensure a coordinated approach, to the extent possible, across the District; and
- a timeframe and action steps for completing key objectives.

The Bank and Associations have established and are in the process of implementing LIBOR transition plans and continue to analyze potential risks associated with the LIBOR transition, including, but not limited to, financial, market, accounting, operational, legal, tax, reputational, and compliance risks.

At this time, the Bank is unable to determine when LIBOR will completely cease to be available or becomes unrepresentative, or if SOFR will become the only benchmark to replace LIBOR. However, in light of the announcements by the UK FCA, the IBA and U.S. prudential regulators noted above, U.S. dollar LIBOR, except in very limited circumstances, will be discontinued or declared unrepresentative (depending on the tenor) as of either immediately after December 31, 2021 or June 30, 2023. Because the Bank and Associations engage in transactions involving financial instruments that reference LIBOR, developments regarding potential replacement indices could have a material impact on the financial results, borrowers, investors, and counterparties.

For example, on April 6, 2021, the New York Governor signed into law the New York State Legislature's Senate Bill 297B/ Assembly Bill 164B (the New York LIBOR Legislation). The New York LIBOR Legislation amends the New York General Obligations Law by adding new Article 18-c and mirrors a legislative proposal drafted by the Alternative Reference Rates Committee (the ARRC) aimed at ensuring legal clarity for legacy instruments governed by New York law during the US dollar LIBOR transition. The ARRC is an industry-working group convened by the Federal Reserve Board and the New York Fed to lead the LIBOR transition, which, among other work, has developed industry-specific fallback language that may be used by market participants to address the cessation of US dollar LIBOR. The New York LIBOR Legislation applies to US dollar LIBOR-based contracts, securities, and instruments governed under New York law that (i) do not have any US dollar LIBOR fallback provisions in place, (ii) have US dollar LIBOR fallback provisions that result in replacement rates that are in some way based on US dollar LIBOR, or (iii) have US dollar LIBOR fallback provisions that allow or require one of the parties or an outsider to select a replacement rate for US dollar LIBOR. The New York LIBOR Legislation (a) provides in respect of (i) and (ii) above, upon the occurrence of a "LIBOR Discontinuance Event" and the related "LIBOR Replacement Date" (each as defined in the New York LIBOR Legislation), that the then-current US dollar LIBOR based benchmark, by operation of law, be replaced by a "Recommended Benchmark Replacement" (as defined in the New York LIBOR Legislation) based on the Secured Overnight Financing Rate (SOFR), or, (b) in respect of (iii), encourages the replacement of LIBOR with the "Recommended Benchmark Replacement" by providing a safe harbor from legal challenges under New York law.

The New York LIBOR Legislation may apply to certain of the System institutions' LIBOR-based instruments. For example, to the extent there is an absence of controlling federal law or unless otherwise provided under the terms and conditions of a particular issue of Systemwide Debt Securities, the Systemwide Debt Securities are governed by and construed in accordance with the laws of the State of New York, including the New York General Obligations Law.

At present, there is no specific federal law akin to the New York LIBOR Legislation addressing the US dollar LIBOR transition. However, United States Congress began working on a draft version of federal legislation in October of 2020 that would provide a statutory substitute benchmark rate for contracts that use US dollar LIBOR as a benchmark and that do not have any sufficient fallback clauses in place. The current version of the legislation, the Adjustable Interest Rate (LIBOR) Act of 2021, was formally introduced in the House of Representatives on July 22, 2021. The bill has been assigned to the House Financial Services, Ways & Means, and Education & Labor Committees. On July 29, 2021, The House Financial Services Committee voted to positively report the bill out of committee and send it to the full House. Consideration by the full House is not expected to take place before September of this year. While similar to the New York LIBOR Legislation, including inclusion of a safe harbor for use of recommended LIBOR fallbacks that are based on SOFR, there are differences in the current draft of the federal legislation, including, perhaps most significantly, that the draft bill specifically provides for the preemption of state law, which would include the New York LIBOR Legislation. At this time, it is uncertain as to whether, when and in what form such federal legislation would be adopted.

In light of the proliferation of alternatives to LIBOR and the slower than expected transition away from LIBOR, regulators, the ARRC and market participants have more aggressively taken steps to speed up this transition. In addition to the recent public positions taken by members of the Financial Stability Oversight Council (FSOC), including from the U.S. prudential regulators and the Securities and Exchange Commission and the Commodity Futures Trading Commission (CFTC), the CFTC (through its Market Risk Advisory Committee (MRAC)), the ARRC and the IBA have also made statements and taken action to move the markets to transition away from LIBOR using SOFR.



In addition, on July 13, the MRAC adopted a market best practice known as “SOFR First”. SOFR First is designed to help market participants decrease reliance on USD LIBOR in light of statements from the Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO) on the LIBOR transition which reinforce U.S prudential regulators’ guidance that banks should cease entering new contracts that reference USD LIBOR post December 31, 2021. SOFR First recommends a phased approach to be completed by December 31, 2021. The first phase, completed on July 26, implemented the MRAC recommendation that interdealer brokers would replace their trading of LIBOR linear swaps with trading of SOFR linear swaps. In light of the successful implementation of this first phase of SOFR First and the ARRC’s assessment of whether a forward looking term rate based on SOFR published by the CME Group (Term SOFR) were being met, the ARRC formally announced that Term SOFR was an appropriate fallback to LIBOR to be used for certain types of currently outstanding loans, floating rate notes (which would include certain outstanding Systemwide Debt Securities) and derivatives based on LIBOR when the LIBOR was discontinued or deemed unrepresentative, and, in more limited circumstances, for new loans, notes and other transactions, including derivatives. The successful implementation of SOFR First and the ARRC’s support of Term SOFR are expected to increase the volume of transactions quoted in SOFR, supporting the implementation of the transition away from LIBOR.

The following is a summary of District variable-rate financial instruments outstanding with LIBOR exposure at June 30, 2021:

<i>(dollars in millions)</i>	<b>Due in 2021</b>	<b>Due in 2022</b>	<b>Due in 2023 on or before June 30</b>	<b>Due after June 30, 2023</b>	<b>Total</b>
Investments	\$ 6	\$ 1	\$ —	\$ 1,230	\$ 1,237
Loans	382	296	139	4,038	4,855
Total	<u>\$ 388</u>	<u>\$ 297</u>	<u>\$ 139</u>	<u>\$ 5,268</u>	<u>\$ 6,092</u>
Systemwide debt securities	\$ 775	\$ 275	\$ 35	\$ —	\$ 1,085
Preferred stock	—	—	—	40	40
Total	<u>\$ 775</u>	<u>\$ 275</u>	<u>\$ 35</u>	<u>\$ 40</u>	<u>\$ 1,125</u>

The LIBOR transition plan includes implementing fallback language into variable-rate financial instruments maturing after December 31, 2021 which provides the ability to move these instruments to another index if the LIBOR market is no longer viable. As of June 30, 2021, less than 1 percent of total District investments, and approximately 2 percent of total District loans and 1 percent of Systemwide debt securities maturing after December 31, 2021 do not contain fallback provisions. The Bank's preferred stock may be redeemed on any five-year anniversary of its issuance. The next redemption date for the preferred stock is June, 2022.

# Balance Sheets

(unaudited)

<i>(dollars in thousands)</i>	June 30, 2021	December 31, 2020
<b>Assets</b>		
Cash	\$ 537,769	\$ 698,542
Cash equivalents	180,000	520,000
Investments in debt securities:		
Available-for-sale (amortized cost of \$8,879,536 and \$8,294,821, respectively)	9,024,605	8,485,350
Held-to-maturity (fair value of \$62,677 and \$75,822, respectively)	55,722	65,627
Total investments in debt securities	9,080,327	8,550,977
Loans	33,023,803	32,170,077
Allowance for loan losses	(219,173)	(220,261)
Net loans	32,804,630	31,949,816
Loans held for sale	7,938	19,063
Accrued interest receivable	231,667	233,375
Accounts receivable	80,753	119,391
Equity investments in other Farm Credit institutions	53,747	52,717
Other investments	1,954	1,794
Premises and equipment, net	234,794	224,578
Other property owned	9,660	10,751
Other assets	71,063	66,458
Total assets	\$ 43,294,302	\$ 42,447,462
<b>Liabilities</b>		
Systemwide bonds payable	\$ 28,550,389	\$ 25,693,876
Systemwide and other notes payable	6,832,079	8,803,180
Accrued interest payable	33,433	27,891
Accounts payable	79,766	430,504
Advanced conditional payments	19,123	10,601
Other liabilities	331,757	373,890
Total liabilities	35,846,547	35,339,942
<b>Shareholders' Equity</b>		
Perpetual preferred stock	39,500	49,250
Protected borrower equity	446	446
Capital stock and participation certificates	192,348	178,388
Additional paid-in-capital	85,596	82,573
Retained earnings		
Allocated	2,247,644	2,264,776
Unallocated	5,076,027	4,697,437
Accumulated other comprehensive income (loss)	(193,806)	(165,350)
Total shareholders' equity	7,447,755	7,107,520
Total liabilities and equity	\$ 43,294,302	\$ 42,447,462

# Statements of Comprehensive Income

<i>(dollars in thousands)</i>	<i>(unaudited)</i> For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
<b>Interest Income</b>				
Investments	\$ 32,639	\$ 40,269	\$ 64,640	\$ 90,329
Loans	346,432	358,070	684,662	739,813
Other	38	532	78	1,342
Total interest income	379,109	398,871	749,380	831,484
<b>Interest Expense</b>				
	45,710	94,833	87,145	250,822
Net interest income	333,399	304,038	662,235	580,662
Provision for loan losses	(31)	11,808	(942)	15,260
Net interest income after provision for loan losses	333,430	292,230	663,177	565,402
<b>Noninterest Income</b>				
Loan fees	16,771	12,269	31,778	21,801
Fees for financially related services	4,409	2,682	6,851	4,343
Lease income	944	947	1,889	1,866
Gains (losses) on investments, net	330	—	330	7,215
Gains (losses) on debt extinguishment	(2,614)	(23,203)	(4,834)	(43,947)
Gains (losses) on other transactions	4,295	6,365	7,350	5,334
Insurance premium refund	—	(16)	—	6,813
Other noninterest income	2,596	1,177	6,903	5,981
Total noninterest income	26,731	221	50,267	9,406
<b>Noninterest Expenses</b>				
Salaries and employee benefits	86,481	82,809	174,919	163,315
Occupancy and equipment	6,669	6,453	13,611	13,362
Insurance Fund premiums	11,688	5,739	22,936	11,204
Other operating expenses	44,646	39,180	86,351	80,465
Losses (gains) from other property owned	168	853	91	1,433
Total noninterest expenses	149,652	135,034	297,908	269,779
Income before income taxes	210,509	157,417	415,536	305,029
Provision for income taxes	338	436	507	573
<b>Net income</b>	<b>\$ 210,171</b>	<b>\$ 156,981</b>	<b>\$ 415,029</b>	<b>\$ 304,456</b>
<b>Other comprehensive income net of tax:</b>				
Unrealized gains (losses) on investments	\$ 48,988	\$ 95,550	\$ (45,469)	\$ 149,987
Change in value of cash flow hedges	(24)	(68)	(41)	(136)
Employee benefit plans adjustments	8,527	9,047	17,054	18,095
Other comprehensive income	57,491	104,529	(28,456)	167,946
<b>Comprehensive income</b>	<b>\$ 267,662</b>	<b>\$ 261,510</b>	<b>\$ 386,573</b>	<b>\$ 472,402</b>

**DISTRICT ASSOCIATIONS**

As of June 30, 2021

<b>Associations</b>	<b>Direct Notes</b>	<b>% of Direct Note Total</b>	<b>Total Assets</b>	<b>Total Allowance and Capital</b>	<b>Total Regulatory Capital Ratio</b>	<b>Nonperforming Loans as a % of Total Loans</b>	<b>ROA</b>
<i>(dollars in thousands)</i>							
AgCarolina	\$ 953,069	4.80 %	\$ 1,267,539	\$ 317,117	21.47 %	2.02 %	1.92 %
AgChoice	1,988,002	10.01	2,473,678	484,897	17.33	0.31	1.99
AgCredit	1,884,090	9.49	2,323,356	427,497	21.32	0.30	2.37
AgGeorgia	865,216	4.36	1,144,098	267,060	23.30	3.12	1.96
AgSouth	1,583,894	7.97	2,049,732	450,412	22.40	1.17	2.49
ArborOne	474,135	2.39	580,315	111,223	18.71	3.17	1.79
Cape Fear	830,555	4.18	1,074,057	243,700	20.96	1.09	2.73
Carolina	1,416,086	7.13	1,803,062	370,838	20.24	0.89	2.26
Central Florida	518,991	2.61	657,510	128,905	18.33	1.26	2.12
Central Kentucky	520,896	2.62	639,491	118,743	19.22	0.61	2.71
Colonial	527,681	2.66	732,526	200,206	24.94	0.21	1.93
First South	2,181,712	10.99	2,734,987	521,331	17.96	0.18	1.59
Florida	1,063,200	5.35	1,390,262	320,607	19.45	0.50	2.08
MidAtlantic	2,261,293	11.39	2,977,526	709,304	21.84	2.51	1.75
Northwest Florida	229,751	1.16	320,298	92,345	27.31	0.91	1.64
Puerto Rico	111,045	0.56	169,060	57,186	35.15	5.90	1.11
River Valley	436,822	2.20	556,001	115,418	20.73	2.13	1.61
Southwest Georgia	502,562	2.53	612,066	109,107	17.00	0.61	2.05
Virginias	1,511,753	7.61	1,994,208	483,094	22.99	2.04	1.53

**AgFirst Farm Credit Bank**

---

AgFirst Farm Credit Bank  
1901 Main Street  
Columbia, SC 29201  
800-845-1745  
[www.agfirst.com](http://www.agfirst.com)

**AgFirst District Associations**

---

AgCarolina Farm Credit, ACA  
4000 Poole Road  
Raleigh, NC 27610  
919-250-9500  
<http://www.agcarolina.com>

Farm Credit of Central Florida, ACA  
204 East Orange Street, Suite 200  
Lakeland, FL 33801  
863-682-4117  
<http://www.farmcreditfl.com>

AgChoice Farm Credit, ACA  
300 Winding Creek Blvd.  
Mechanicsburg, PA 17050  
717-796-9372  
<http://www.agchoice.com>

Farm Credit of Florida, ACA  
11903 Southern Boulevard Suite 200  
West Palm Beach, FL 33411  
561-965-9001  
<http://farmcreditfl.com>

AgCredit Agricultural Credit Association  
610 W. Lytle Street  
Fostoria, OH 44830-3422  
419-435-7758  
<http://www.agcredit.net>

Farm Credit of Northwest Florida, ACA  
5052 Highway 90 East  
Marianna, FL 32446  
850-526-4910  
<http://farmcredit-fl.com>

AgGeorgia Farm Credit, ACA  
468 Perry Parkway  
Perry, GA 31069  
478-987-8300  
<http://www.aggeorgia.com>

Farm Credit of the Virginias, ACA  
106 Sangers Lane  
Staunton, VA 24401  
540-886-3435  
<http://www.farmcreditofvirginias.com>

AgSouth Farm Credit, ACA  
26 South Main Street  
Statesboro, GA 30458  
912-764-9091  
<http://www.agsouthfc.com>

First South Farm Credit, ACA  
574 Highland Colony Parkway, Suite 100  
Ridgeland, MS 39157  
601-977-8381  
<http://www.firstsouthfarmcredit.com>

ArborOne, ACA  
800 Woody Jones Blvd.  
Florence, SC 29501  
843-662-1527  
<http://www.arborone.com>

MidAtlantic Farm Credit, ACA  
45 Aileron Court  
Westminster, MD 21157  
410-848-1033  
<http://www.mafc.com>

Cape Fear Farm Credit, ACA  
333 East Russell Street  
Fayetteville, NC 28302  
910-323-9188  
<https://www.capefearfc.com>

Puerto Rico Farm Credit, ACA  
213 Domenech Ave.  
San Juan, PR 00918  
787-753-0579  
<http://www.prfarmcredit.com>

Carolina Farm Credit, ACA  
146 Victory Lane  
Statesville, NC 28625  
704-873-0276  
<http://www.carolinafarmcredit.com>

River Valley AgCredit, ACA  
408 East Broadway  
Mayfield, KY 42066  
270-247-5613  
<http://www.rivervalleyagcredit.com>

Central Kentucky Agricultural Credit Association  
640 S. Broadway  
Lexington, KY 40508  
859-253-3249  
<http://www.agcreditonline.com>

Southwest Georgia Farm Credit, ACA  
305 Colquitt Highway  
Bainbridge, GA 39817  
229-246-0384  
<http://www.swgafarmcredit.com>

Colonial Farm Credit, ACA  
7104 Mechanicsville Turnpike  
Mechanicsville, VA 23111  
804-746-1252  
<http://www.colonialfarmcredit.com>